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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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IN THE MATTER OF THE ARIZONA
CORPORATION COMMISSION'S
INVESTIGATION OF REGULATORY
AND RATE INCENTIVES FOR GAS
AND ELECTRIC UTILITIES

DOCKET NO. E-00000J-08-0314
G-00000C-08-0314

NOTICE

**WRITTEN COMMENTS OF SOUTHWEST GAS CORPORATION
IN RESPONSE TO AND IN SUPPORT OF THE DRAFT
ARIZONA CORPORATION COMMISSION POLICY STATEMENT
REGARDING UTILITY DISINCENTIVES TO ENERGY EFFICIENCY AND
DECOUPLED RATE STRUCTURES**

Southwest Gas Corporation hereby submits written comments in response to and in support of the Arizona Corporation Commission's ("Commission") draft policy statement regarding utility disincentives to energy efficiency and decoupled rate structures published October 18, 2010.

INTRODUCTION

Southwest Gas actively participated in both the Commission's energy efficiency workshops and decoupling workshops over the past eighteen months and enthusiastically supports the message the draft policy statement sends regarding the Commission's intent to eliminate the link between fixed cost recovery and sales – namely the implementation of revenue per customer decoupling. Indeed, the Commission's directive is well founded and is a widely accepted public policy as regulatory commissions in more than half of the 50 states have eliminated the link between utility fixed cost recovery and sales.¹

Throughout the course of the energy efficiency and decoupling workshops, Southwest Gas

¹ See Exhibit A, American Gas Association map of states with decoupling and flat monthly fees, June 2010.

1 expressed its support for a change in the Arizona regulatory model – from one where utilities are
2 incented to increase sales to one where utilities are indifferent to their level of sales and their focus
3 sharpened on encouraging efficient use of their respective commodity. Southwest Gas argued that
4 such a change required implementation of a regulatory model that contains three necessary
5 components:

- 6 ✓ Timely cost recovery of conservation and energy-efficiency program costs.
- 7 ✓ Removal of the financial disincentive associated with utilities' reliance upon
8 volumetric sales as the means to recover Commission-approved fixed costs, resulting
9 in the alignment of customer and utility interests by severing the relationship
10 between sales and profits (i.e., revenue decoupling).
- 11 ✓ Performance incentives. Simply removing the financial disincentive will not
12 maximize performance; utilities need to be rewarded through performance incentives
13 in order to maximize energy efficiency potential. Similar to how utilities currently
14 have an earnings opportunity with respect to plant they place into service, utilities
15 should have an earnings opportunity on the investment they make in energy
16 efficiency. The application of performance incentives (or an earnings opportunity)
17 will encourage utilities to be more aggressive in acquiring supply- and demand-side
18 resources that help customers use energy more efficiently; more efficient use of
19 energy by customers means lower utility bills for customers.

20 Southwest Gas believes that with approval of the draft policy statement combined with the
21 Commission's energy efficiency rules, all three components are addressed and the Commission will
22 position Arizona utilities to pursue all cost-effective energy efficiency and maximize customer bill
23 savings.

COMMENTS

Southwest Gas supports the draft policy statement regarding implementation of a revenue per customer decoupling mechanism on a permanent basis, subject to review after a three year period, which compares and adjusts for differences between authorized revenue per customer to actual, non-weather adjusted, revenues, and whereby adjustments are blended across all participating customer classes. Southwest Gas further supports the decision to not make any initial adjustment to the cost of capital until completion of the review period and its conclusion that revenue per customer decoupling is well-suited for Arizona, as this type of mechanism sufficiently addresses potential issues associated with changes in the number of customers on the utility's system (both positive and negative).

In addition, Southwest Gas agrees that the operating characteristics of each utility should be taken into consideration when determining the specific structure of a revenue decoupling mechanism and a one-size fits all mechanism may not be optimal for all Arizona utilities. Accordingly, Southwest Gas supports the recognition that certain issues related to the implementation of revenue decoupling will need to be addressed during the utility's rate case. As noted by the draft policy statement, these issues include: (1) the development of rate designs that support energy efficiency; (2) the consideration of more frequent rate adjustments to allow for weather-related rate relief for customers; (3) the determination of whether revenue decoupling should be applied differently to new and existing customers; (4) the consideration of whether unique characteristics warrant different treatment among customer classes; (5) the determination of how decoupling adjustments could be applied in a manner that encourages energy efficiency; and (6) the consideration of using collars or caps on the decoupling adjustments to minimize the short-term effects on customers. Consistent with the direction set forth in the draft policy statement,

1 Southwest Gas looks forward to working with all interested parties on these issues during its next
2 general rate case proceeding.

3 One item that warrants modification is what appears to be an inconsistency in paragraphs 3
4 and 5 of the policy statement. Southwest Gas suggests changing the “or” to “and” in both the third
5 sentence of paragraph 3 and at the beginning of the open parenthetical in paragraph 5 to ensure
6 consistency with the first two sentences of paragraph 3 and to be consistent with the evidence
7 presented during the decoupling workshops – namely that revenue decoupling is not an incentive,
8 but rather a means to remove the financial disincentive. Moreover, as was explained during the
9 workshops and as set forth above, alternative mechanisms that provide incentives to utilities for
10 performance when they go beyond simply complying with the energy efficiency mandates should
11 be considered in addition to revenue decoupling. Absent this modification, it could be construed
12 that incentive mechanisms should be considered as an alternative to revenue decoupling, which is
13 contrary to the evidence presented during the workshops and inconsistent with the first two
14 sentences of paragraph 3.

15 CONCLUSION

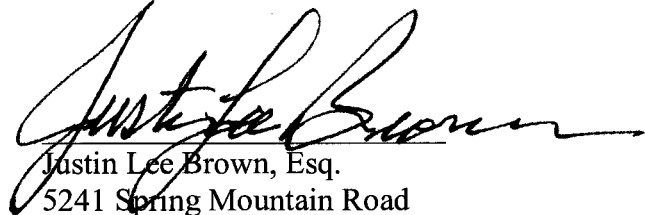
16 As reflected in the draft policy statement, a revenue decoupling mechanism will provide
17 short and long term benefits to customers, which include customer bill savings through increased
18 energy efficiency, savings to customers through improvements in the utility’s cost of capital, and
19 the opportunity for customers to experience rate relief following extreme weather events. For these
20 reasons, as well as those discussed at great length during the workshops, Southwest Gas supports
21 the Commission’s draft policy statement and looks forward to continuing to work with interested
22

23 ///

1 parties and the Commission towards implementing revenue decoupling for Southwest Gas and
2 pursuing all cost-effective energy efficiency to maximize customer bill savings.

3 DATED this 28th day of October 2010.

4 SOUTHWEST GAS CORPORATION

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3 of October 2010, with:

4 Docket Supervisor
5 Docket Control
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9 COPIES of the foregoing
10 served by e-mail
11 this 28th day of July
12 2010 on:

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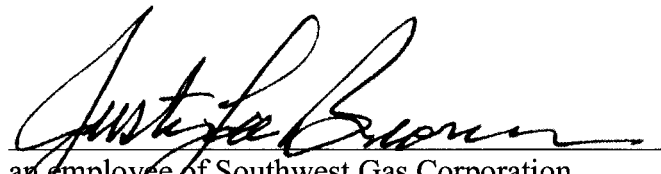
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